

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00
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FM AMCONSUL MONTREAL

TO SECSTATE WASHDC PRIORITY 8910

INFO AMEMBASSY OTTAWA PRIORITY

AMCONSUL QUEBEC PRIORITY

AMCONSUL VANCOUVER BY POUCH

AMCONSUL WINNIPEG BY POUCH

AMCONSUL HALIFAX BY POUCH

AMCONSUL TORONTO BY POUCH

AMCONSUL CALGARY BY POUCH

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E. O. 11652: N/A

TAGS: ECON, EINV, PGOV, CA

SUBJ: BUSINESS ABANDONS UNILINGUAL QUEBEC

1. BEGIN SUMMARY: FIGURES RELEASED BY FEDERAL GOVERNMENT SHOW THAT INCREASING NUMBERS OF HEAD OFFICES ARE LEAVING QUEBEC. WHILE THESE FIGURES HAVE SERIOUS LIMITATIONS, THEY SUGGEST A TREND WHICH IS CORROBORATED BY OUR CONTACTS IN BUSINESS COMMUNITY. MOVEMENT IS GREATEST AMONG THOSE FIRMS DEPENDENT ON TECHNICAL PERSONNEL, WHO ARE INCREASINGLY RELUCTANT TO WORK IN QUEBEC. MANY FIRMS TEND TO SEE PENDING LANGUAGE LEGISLATION AS LAST STRAW IN DETERIORATING SUITABILITY OF QUEBEC AS LOCUS FOR OPERATIONS. GOVERNMENT WILLINGNESS TO RECOGNIZE SPECIAL NEEDS OF HEAD OFFICES AND TO COMPROMISE ON PROVISIONS AFFECTING EDUCATION WILL BE MAJOR DETERMINANT IN ATTITUDES TOWARD CONTINUED PRESENCE IN
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QUEBEC. SIGNIFICANTLY, CONCERN IS NOT LIMITED TO ANGLOPHONES, AS MANY MEMBERS OF FRANCOPHONE BUSINESS COMMUNITY ARE EQUALLY DEMORALIZED BY POTENTIAL EFFECTS OF LANGUAGE LEGISLATION ON ECONOMIC ENVIRONMENT. END SUMMARY

2. REACTING TO RUMORS OF MASS BUSINESS EXODUS FROM QUEBEC, FINANCE MINISTER JACQUES PARIZEAU HAS TOLD QUEBEC'S NATIONAL

ASSEMBLY THAT PROVINCIAL GOVERNMENT IS CARRYING OUT STUDY, HEADED BY BERNARD LANDRY, QUEBEC'S MINISTER OF ECONOMIC DEVELOPMENT, TO DETERMINE IF HEAD OFFICES ARE ACTUALLY LEAVING QUEBEC. PQ STUDY COINCIDES WITH PRESS ATTENTION GIVEN LATEST FIGURES COMPILED MONTHLY BY FEDERAL GOVERNMENT'S BUREAU OF CORPORATE AFFAIRS, WHICH SHOW THAT 91 COMPANIES HAVE MOVED THEIR HEAD OFFICES OUT OF PROVINCE IN FOUR-MONTH PERIOD, NOVEMBER - FEBRUARY.

3. SAME FIGURES SHOW THAT ONLY 57 FIRMS SHIFTED THEIR HEAD OFFICES OUT OF QUEBEC DURING PREVIOUS 10-MONTH PERIOD. FOR THE NOVEMBER-FEBRUARY PERIOD HEAD OFFICE TRANSFERS FROM QUEBEC TOOK PLACE AT RATE OF MORE THAN 22 A MONTH, COMPARED TO RATE OF ABOUT FIVE A MONTH FOR THE PREVIOUS 10-MONTH PERIOD. WHILE TREND DURING 1976 HAD BEEN IN DIRECTION OF MORE FIRMS LEAVING THAN ENTERING QUEBEC, IMBALANCE SHIFTED SHARPLY UPWARD IN NOVEMBER WHEN FEDERAL FIGURES SHOWED THAT 25 HEAD OFFICES LEFT QUEBEC, WHILE ONLY 2 ENTERED QUEBEC. PATTERN SINCE THEN HAS BEEN SIMILAR.

4. FEDERAL REGIONAL EXPANSION MINISTER MARCELLE LESSARD WAS QUICK TO MAKE USE OF FIGURES, DECLARING THAT POLITICAL UNCERTAINTY WHICH HAS PROMPTED MANY BUSINESSES TO MOVE HEAD OFFICES OUT OF QUEBEC AT AN "ALARMING RATE" HAS ALREADY HAD DISRUPTIVE EFFECT ON QUEBEC ECONOMY. LESSARD SAID THAT QUEBEC'S ECONOMY IS EXPECTED TO GROW ABOUT 2.9 O/O IN 1977, ABOUT THE SAME RATE AS LAST YEAR, BUT STILL WELL BELOW THE NATIONAL AVERAGE. LESSARD ADDED THAT THE UNEMPLOYMENT SITUATION AND THE WEAKNESS OF PRIVATE INVESTMENT ARE THE MOST SERIOUS PROBLEMS FACING QUEBEC AT PRESENT, WITH THE LOW RATE OF JOB CREATION A PARTICULARLY WORRISOME PROBLEM. LAST YEAR, ONLY 27,000 NEW JOBS WERE CREATED IN QUEBEC, THE LIMITED OFFICIAL USE

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LOWEST RATE SINCE THE EARLY 1970'S. FOR 1977 NEW JOBS ARE NOT EXPECTED TO EXCEED 20,000. LESSARD SAID REGIONAL EXPANSION DEPARTMENT IS CONSIDERING SPECIAL MEASURES TO AID INDUSTRY IN MONTREAL AND REMOTE REGIONS OF QUEBEC.

5. COMMENT: INTERPRETATION OF FEDERAL FIGURES ON HEAD OFFICE MOVES SHOULD BE SEEN WITHIN LIMITS OF TREND ANALYSIS, NOT SPECIFICS. FIRST, FIGURES COVER ONLY FEDERALLY INCORPORATED COMPANIES - SOLE OWNERSHIPS AND PARTNERSHIPS ARE EXCLUDED. SECOND, FEDERAL GOVERNMENT IS OFTEN NOT NOTIFIED UNTIL LONG AFTER A MOVE HAS OCCURRED. AND MOST IMPORTANT, HEAD OFFICE TRANSFERS IN MANY CASES OCCUR ONLY ON PAPER, WITH NO REMOVAL OF ASSETS OR EMPLOYEES. MANY OF THE CORPORATIONS COVERED BY THE GOVERNMENT'S SERIES ARE ALSO EXTREMELY SMALL.

6. TREND SUGGESTED BY FEDERAL FIGURES IS SUPPORTED, HOWEVER, BY OUR CONTACTS IN THE BUSINESS COMMUNITY WHICH INDICATE THAT MORE FIRMS ARE NOW SERIOUSLY CONSIDERING MOVES OUT OF QUEBEC. MANY HAVE LONG HAD ECONOMIC REASONS FOR MOVING, BUT HAVE STAYED IN

QUEBEC FOR HISTORIC REASONS, OR PERHAPS INERTIA. WITH THE POLITICAL SITUATION OFFERING SEVERAL YEARS OF UNCERTAINTY, AND WITH DIMINISHED RATIONALE FOR A CONTINUED PRESENCE IN QUEBEC, MANY FIRMS ARE NOW APPROACHING FINAL DECISIONS. AS EXAMPLE, WE ARE AWARE OF STUDY BY ROLLS ROYCE ON ADVISABILITY OF MOVING OPERATIONS OUT OF QUEBEC INTO THE U.S. ROLLS HAS TWO PLANTS IN QUEBEC AND ONE OR TWO OTHERS ELSEWHERE IN CANADA. LARGEST PLANT IN QUEBEC EMPLOYS MORE THAN 1,000 LABORERS. MANAGEMENT FOR SOME TIME HAS BEEN CONCERNED ABOUT HIGH COST OF LABOR IN QUEBEC, AS WELL AS GENERAL LABOR SITUATION IN CANADA. MOST IMPORTANT, HOWEVER, IS NEED OF ROLLS FOR HIGHLY QUALIFIED TECHNICAL PERSONNEL, WHOM IT HAS FOUND INCREASINGLY DIFFICULT TO ATTRACT TO ITS MAIN FACILITY IN QUEBEC.

7. WITH NEW LANGUAGE LEGISLATION PROMISING TO MAKE SITUATION EVEN WORSE, COMPANY'S CHIEF EXECUTIVE OFFICER IN NORTH AMERICA HAS TOLD US THAT HE MUST FILE A REPORT WITH HIS BOARD NEXT WEEK

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MAKING RECOMMENDATIONS ON WHAT ROLLS SHOULD DO ABOUT ITS QUEBEC OPERATIONS. HIS COMMENTS TO US INDICATE THAT HE IS STRONGLY IN FAVOR OF FOLDING UP QUEBEC OPERATIONS, WITH RESULT THAT REST OF CANADIAN OPERATIONS WOULD ALSO BE TERMINATED. AS EXAMPLE OF DIFFICULTIES FACED BY ROLLS ROYCE, HE SAID THAT COMPANY HAS LARGE VOLUME OF TECHNICAL MATERIAL AND MANUALS WHICH WILL NEED TO BE TRANSLATED INTO FRENCH SHOULD COMPANY REMAIN IN QUEBEC. INITIAL COSTS OF TRANSLATION WOULD APPROACH \$15 MILLION WITH ANNUAL EXPENSES FOR TRANSLATION AND PRINTING SPECIFICATIONS IN FRENCH RANGING BETWEEN \$1 1/2 - \$2 MILLION. AS COMPANY DOES 90 O/O OF ITS BUSINESS OUTSIDE QUEBEC, CHIEF EXECUTIVE OFFICER INDICATED HE COULD FIND FEW REASONS FOR RECOMMENDING THAT COMPANY STAY IN PROVINCE. COMPANY WAS ALSO CONCERNED, HE SAID, ABOUT WHITE PAPER PROVISIONS THAT WOULD REQUIRE COMPANIES TO INCLUDE EMPLOYEE REPRESENTATIVES ON FRANCIZATION COMMITTEES.

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8. IN SEPARATE CONVERSATION, WE HAVE ALSO BEEN TOLD THAT PRATT & WHITNEY DIVISION OF UNITED AIRCRAFT IN QUEBEC IS ALSO CONCERNED ABOUT IMPLICATIONS AND COSTS OF LANGUAGE LEGISLATION AND HAS BEGUN ITS OWN STUDY ON ADVISABILITY OF CONTINUED OPERATIONS HERE. AS WE HAVE REPORTED EARLIER, PROBLEMS ASSOCIATED WITH QUEBEC'S LANGUAGE LEGISLATION ARE PARTICULARLY DIFFICULT FOR FIRMS REQUIRING HIGHLY QUALIFIED TECHNICAL PERSONNEL, AND TRANSLATION OF LARGE QUANTITIES OF TECHNICAL MATERIAL. REFLECTING THESE DIFFICULTIES COMBUSTION ENGINEERING HAS ANNOUNCED MOVE OUT OF QUEBEC; DOMINION BRIDGE IS TAKING STEPS TO TRANSFER ENGINEERING OPERATIONS TO ONTARIO; AND EMPLOYEES OF CIL RECEIVED NOTICES THIS WEEK THAT COMPANY'S CHEMICAL DIVISION WOULD BE TRANSFERRED TO ONTARIO. GIVEN RIGOROUS NATURE OF LANGUAGE REGULATIONS GOVERNING PROFESSIONAL PERSONNEL, WE WOULD EXPECT TRANSFER OF HIGHLY TECHNICAL POSITIONS OUT OF QUEBEC TO CONTINUE.

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9. TWO ADDITIONAL DETERMINANTS IN LINGUISTIC AREA OF QUEBEC'S ECONOMIC FUTURE WILL DEPEND ON PQ POLICY TOWARD HEAD OFFICES AND WILLINGNESS TO COMPROMISE ON EDUCATIONAL PROVISIONS THAT, AS PRESENTLY DRAFTED, WOULD PROHIBIT CANADIANS TRANSFERRED INTO QUEBEC FROM SENDING THEIR CHILDREN TO ENGLISH SCHOOLS UNLESS ONE OF PARENTS HAD ATTENDED QUEBEC ELEMENTARY SCHOOLS. THIRTEEN MAJOR CORPORATIONS WITH HEAD OFFICES IN QUEBEC HAS CONDUCTED A STUDY SHOWING THAT PROVINCIAL ECONOMY COULD LOSE UP TO A BILLION DOLLARS ANNUALLY, AN ESTIMATE SAID TO BE ON LOW SIDE, IF THEY MOVE THEIR OPERATIONS ELSEWHERE. WHILE WE CANNOT PREDICT FINAL VERSION OF LANGUAGE LEGISLATION, THERE ARE INDICATIONS THAT THERE IS SUBSTANTIAL SUPPORT WITHIN GOVERNMENT FOR RECOGNITION OF NEEDS OF HEAD OFFICES AND FOR MODIFICATIONS RECOGNIZING RIGHTS OF OTHER CANADIANS TO EDUCATE THEIR CHILDREN IN ENGLISH IN QUEBEC. FAILING

THIS, IT IS DIFFICULT TO BE OPTIMISTIC ABOUT THE FUTURE. WE AGREE WITH PETER NEWMAN'S STATEMENT REPORTED TORONTO 991 THAT CANADIAN BUSINESS ESTABLISHMENT HAS NEVER REALLY COMPREHENDED THE NATURE OF THE STRUGGLE IN QUEBEC. UNFORTUNATELY, UNLESS THERE IS SOME GIVE IN PQ'S LANGUAGE POLICY - WHICH MANY FIRMS SEE AS THE LAST STRAW - NEWMAN'S FEAR THAT THE CANADIAN ESTABLISHMENT, IN ABANDONING THE PROVINCE TO ITS OWN DARK DEVICES, WILL BECOME MAIN AGENT OF ITS OWN DESTRUCTION MAY ALSO PROVE INCREASINGLY RELEVANT.

10. IT SHOULD BE NOTED IN THIS CONTEXT THAT "CANADIAN BUSINESS ESTABLISHMENT" DOES NOT MEAN JUST ANGLOPHONES. A PROMINENT FRANCOPHONE ATTORNEY HAS TOLD US THAT "MANY OF MY FRANCOPHONE CLIENTS ARE MOVING THEIR BUSINESSES, SOME TO BORDER STATES AND SOME TO ONTARIO AND FARTHER WEST." A HIGHLY-PLACED BUSINESSMAN EXPRESSED HIS CONCERN ABOUT A FRANCOPHONE BRAIN DRAIN BY NOTING THAT AN OLD FRIEND "WHO OWNS 1600 APARTMENT UNITS IN THE CENTER OF TOWN SAYS THAT ON MAY 1 (TRADITIONAL MOVING DAY HERE) HE WILL HAVE 300 VACANCIES -- UNHEARD OF IN A TOWN THAT USUALLY HAS A VACANCY RATE BETWEEN ONE AND TWO PERCENT -- AND 80 O/O OF THOSE WHO HAD MOVED OR WERE MOVING WERE FRANCOPHONES LEAVING LIMITED OFFICIAL USE

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THE PROVINCE." THE EXTENT TO WHICH FRANCOPHONE BUSINESS WILL FEEL COMPELLED OR BE ABLE TO MAKE SUCH ADJUSTMENTS WILL OBVIOUSLY BE MUCH SMALLER THAN IN THE ANGLOPHONE COMMUNITY. NONETHELESS, THEY DO RECOGNIZE THE ECONOMIC IMPLICATIONS OF THIS PROBLEM AND, TO THE DEGREE IT IS FEASIBLE, ARE ALSO ENGAGED IN CONTINGENCY PLANNING.

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Message Attributes

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